Saudi Arabia: Fine-tuning reforms

Since its Vision 2030 plan was announced last year, Saudi Arabia has been working at better defining both the wider long term objectives and near term reforms needed to achieve its 2030 targets. Vision 2030 is an ambitious economic undertaking, aiming among other things at converting the Public Investment Fund into the world’s largest sovereign wealth fund, boosting private sector contribution to 65% of GDP, reducing unemployment to 7% from 11%, privatizing government services, reforming education, and making continued investment in infrastructure. The National Transformation Program (NTP) 2020 launched two months after the vision 2030 aimed to crystalize some of those longer term goals through more workable near term targets that address economic, policy and social reforms. One year later, Saudi authorities have announced that a new version of the NTP 2020 will be out this year. While many critics point to the revisions as a sign of Saudi’s letting up on reform commitments, we take a view that these are constructive steps to improve the reform process.

The new draft of the NTP is expected by the end of October. What we know so far, through sources that have seen the document, is that this new version will be better defined and more structured. Reducing government bureaucracy is one key target, by working on improving the productivity of civil servants and also enhancing transparency. Ten ministries are to be involved in the revised plan down from eighteen in the first version, giving them more autonomy. Furthermore the objectives have been streamlined to thirty six objectives down from hundreds previously. Other goals that the new version will focus on include increasing the participation of women in the workforce, improving access to health care and developing a digital economy.

Addressing government bureaucracy will probably be the biggest challenge that the NTP plan needs to address to remove a big barrier impeding Saudi Arabia’s long term economic goals. Refining policy objectives to focus on areas such boosting female participation and building a digital economy will realize more economic potential for the country that so far remains untapped. If anything the revision of the NTP program shows that Saudi policy makers are taking a very pro-active approach towards their long term development targets. A refresh and reprioritized approach will better help them to identify elements of that plan where it makes more sense to invest time and resources. We expect more revisions to come over the years, which we think will reflect a commitment to move forward rather than pull back.

Saudi Arabia: Employment and Female Participation

Source: Saudi Vision 2030
How ambitious is Vision 2030? Time for a reality check?

Vision 2030 has set very ambitious development targets touching on economic, social and governance objectives. It is the broader economic and social development roadmap that the kingdom has drawn up to position its economy for a future less reliant on oil. Saudi Arabia needs a more diverse economy to create more sustainable jobs and reduce unemployment for rapidly expanding young population. Developing human capital by focusing on education and productivity should create a more capable workforce, and reduce dependence on imported labor. Diversifying sources of income by privatization, taxation, and investment will allow the kingdom to fund for its budget without relying too much on a hydrocarbon market that is becoming both more volatile and unpredictable. The social development targets that Vision 2030 undertakes to deliver are also quite bold and aim to improve and raise quality of life standards such as access to education, and healthcare.

Some of the key economic targets of Vision 2030 include:

- Raising contribution of SME’ to GDP from 20% to 35%,
- Raise private sector contribution to GDP from 40% to 65%.
- Increasing foreign direct investment from 3.8% to 5.7% of GDP, and rising to the top 10 ranks on the Global Competitiveness Index by 2030.
- Raising the share non-oil exports of the non-oil GDP from 16% to 50% by 2030.
- Increasing the size of the Public Investment Fund’s assets from SAR 600 billion to SAR 7 trillion
- In the manufacturing sector Saudi Arabia plans to localize production of renewable energies technologies, 50% of defense sector needs, and to develop equipment manufacturing

Other key targets are centered on building on the strength of the mining and petrochemicals sector, which will allow Saudi Arabia to develop a strong ecosystem for the manufacturing sector. The sector contributes about USD 20bn dollars to GDP annually and employs close to 250,000 people. The country has a large base of inputs needed for the manufacturing process ranging from metals to other mineral resources. The country’s mineral bank includes precious and base metals, phosphate and bauxite, silica, limestone gypsum and magnesite. It also has the growing labor footprint that needs employment. By 2020 Saudi plans to boost the potential of the mining sector to reach SAR 97 billion and create 90,000 jobs. The Vision 2030 plans structural reforms to the mining sector in areas ranging from licensing to funding.
Tackling unemployment and boosting female participation in the workforce are two other important elements. Policymakers plan to lower the “official” unemployment rate from 11.6% to 7%. Given the pace of population growth the challenge will be creating enough private sector jobs that can absorb new entrants to the labor market. Public sector jobs that currently account for 90% of Saudi national employment will struggle to cope with the number of young Saudi’s coming into the job market. Participation of women in the workforce will need to rise, especially if Saudi families are to see a rise in household income which would translate into better living standards. Vision 2030 plans to increase the participation of women to 30% by that year. The rising participation of women in the workforce also possess challenges, as it further raises the need for creating opportunities for those new female participants.

Saudi Arabia has set an ambitious Strategic Transformation Program for Aramco planning to change it from an oil producing company to a global industrial conglomerate. The IPO planned for Aramco and the promise from policy makers to carry it out by late 2018 or early 2019 are reflective of that long term commitment. The success of the IPO will be crucial in supporting Saudi Arabia’s industrial sector ambitions, which has strong foundations around the oil and petrochemicals sector and presents one of the strongest opportunities for job creation in the kingdom. One key factor is that labor footprint of the petrochemicals industry for example gets larger the further these industries get down-streamed and move into higher value added output.

These goals represent some of the long term economic objectives that Saudi Arabia has set to transform its economy. The focus for policymakers in the near term rather needs to be on addressing the bureaucracy and legacy frameworks that have hampered private sector development, restrained the country's manufacturing potential, and skewed human capital dynamics. The National Transformation Plan represents Saudi’s toolbox to tackle those legislative and bureaucratic barriers. In its first iteration the NTP 2020 set somewhat overly ambitious targets to fast track some of those reforms. A new version to come out later in October should present a more realistic approach to dealing with those goals.

Manufacturing vs Industry, value added (% of GDP)

Source: World Bank, Emirates NBD Research
National Transformation Plan: Update required?

Where Vision 2030 outlines the long-term strategic goals, the NTP 2020 set specific nearer term objectives by aligning Saudi Arabia’s economy towards meeting Vision 2030 goals. In 2016 the NTP set 543 initiatives across 24 government bodies at a total cost to the government of SAR 268bn (USD 71bn). The aims of NTP 2020 were to translate the strategic objectives set out in Vision 2030 into initiatives that would be defined as Common National Goals and to set specific measurable targets to achieve them.

The NTP 2020 document listed four key common goals: employment, private sector participation, local content maximization, and digital transformation. Job creation is central to both the NTP 2020 and to the wider goals of Vision 2030. The NTP set a target to create 450,000 jobs in the non-government sector by 2020. Maximizing Local Content is another identified common goal. According to the NTP document some of the program’s initiatives will eventually lead to localizing about SAR 270bn of production and content. Digitization is another important element and identified common goal. The NTP has identified 29 digital initiatives for key sectors to be developed. This also falls within wider plans for Saudi Arabia to develop its digital infrastructure for vision 2030.

The first version of the NTP was developed with the participation of different government entities. These had to identify challenges and obstacles for achieving Vision 2030 and set targets by 2020 for addressing them. They were asked to develop detailed timelines, identify resources needed and assign responsibilities for achieving them, and to publish these targets to allow for wider transparency and public accountability. While some aspect of the first NTP document where quite explicit, there were many areas that remained vague and unspecified or “under study”.

### Saudi Human Capital Index

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Source: UN E-Government Survey 2016, Emirates NBD Research
Rather than giving a focused roadmap for Vision 2030, the NTP document in reality was overwhelming in its scope. The sheer size of the hundreds of goals combined with the number of ministries involved in achieving them raised questions on their viability. Addressing further details on privatization, diversification, taxation and other undefined elements was needed. In September this year, it was reported that Saudi Arabia is revising parts of its NTP plan. “The leadership is annoyed at some ministries for their lack of compliance and wants a reboot” was a statement quoted by one consultant.

The revision, currently being dubbed as “NTP 2.0” should not come as a surprise. The complexity and scope of the goals was one element detracting from progress on the earlier NTP, but equally important was the inability of ministries execute changes and achieve targets. Some targets are also likely to be revised as the data is reviewed to assess whether goals ranging from employment targets to localization of content are indeed achievable. It is crucial that those goals are realistic to allow ministries and government entities the ability to meet them. The new version of the NTP will be based around 36 objectives to be undertaken by 10 ministries, according to news sources.

Female participation in the workforce is one of those key goals to be defined in the new version of the NTP. Women currently account for 22% of the workforce, but 50% of university graduates, making them an under-utilized resource in the Saudi workforce. Some of the challenges Saudi women face range from social acceptability of having women work in conservative Saudi households, to regulations requiring segregation of men and women. One challenge Saudi women faced for decades was that of transportation, as women were not allowed to drive. Saudi Arabia’s King Salman bin Abdulaziz Al Saud signed a royal decree allowing women having the right to drive from June next year. This is very powerful signal on the willingness of policymakers to take the decisions needed to implement important reforms.

Digitizing the Saudi economy is another element likely to get greater attention in the upcoming NTP document. Saudi Arabia needs a more effective bureaucratic ecosystem, development of e-government services and the efficient provision of these services will be key in allowing Saudi Arabia to apply government effectiveness improvements rapidly. E-services provide a shortcut to improving deficiencies and addressing bureaucracies by automating many processes. The new version will also focus on boosting transparency and improving the efficiency of the public sector workforce.

**Saudi E-Government Index**

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*Source: UN E-Government Survey 2016, Emirates NBD Research*
Conclusion:

The document expected to be released later this month should provide further clarity on all of these aspects. The review of the NTP document should reflect the seriousness with which Saudi policymakers are looking at their long term development objectives and the short term goals needed to achieve them. Saudi Arabia Vision 2030 is a vast and ambitious road map, and meeting its targets will require both persistence in following through objectives, and the ability to identify priorities and strengths and direct energy towards them. We remain constructively optimistic, and while more reviews might be necessary, the process of identification and refinement needs to remain ongoing.
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